Canada Council for the Arts | Conseil des arts du Canada

Quarterly

Financial Report

Unaudited

Period ended December 31, 2014
Published February 27, 2015

Bringing the arts to life
De l'art plein la vie

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Management Discussion and Analysis

Quarterly Report

Period ended December 31, 2014
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Bringing the arts to life
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INTRODUCTION

This narrative discussion relates to the financial results of the Canada Council for the Arts (the Council) for the nine-month period ended December 31, 2014 as set out in the accompanying unaudited quarterly financial statements. Those statements are disclosed in accordance with the requirements of section 131.1 of the Financial Administration Act and are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

Management is responsible for the information presented in the unaudited quarterly financial statements and in this narrative discussion, both of which have been reviewed and endorsed by the Audit and Finance Committee of the Council's Board of Directors. In assessing what information is to be provided in the narrative discussion, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the decisions of the primary user of this information, the Government of Canada.

This discussion contains "forward-looking statements" that reflect management's expectations regarding the Council's results of operations. These statements are not facts but only estimates based upon information and assumptions that are currently available to, or made by, management and which are subject to a number of risks and uncertainties. These and other factors may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.

The Financial Administration Act does not require the Council to file a Corporate Plan with the Government of Canada. Therefore, neither this narrative discussion nor the unaudited quarterly financial statements disclose a comparison of results against the Council's Corporate Plan. As required by PSAS, the unaudited quarterly financial statements provide comparisons to the Council's approved annual budget for the year.

HIGHLIGHTS

The Council's new director and CEO, Simon Brault, spoke publicly at several events over the fall of 2014, highlighting the Council's work and its future plans. These events included:

- The 40th International Conference on Social Theory, Politics and Arts at the University of Ottawa's School of Political Science on October 10th, 2014.
- The National Arts Services Organizations (NASOs) meeting on October 19th, 2014. The theme of this year's meeting, as chosen by the coordinating group of NASOs, was research in the arts. Discussions among the 65 attending representatives focused primarily on the issue of resource sharing, collaboration and dissemination of research findings to a wide audience.
- The Annual General Meeting of the Canada Public Arts Funders (CPAF)—whose secretariat is provided by the Council—in Charlottetown, Prince Edward Island on November 12-14, 2014. Board chairs, directors and senior staff of provincial and territorial arts councils across Canada together with the Council explored in-depth the economic, social, community, democratic and intrinsic/individual impact of public arts funding and how it contributes to and benefits Canadian society.

The exhibition Art Bank Exposé took place between November 3rd, 2014 and January 16th, 2015 at First Canadian Place Gallery in Toronto's financial district. The exhibition featured over 30 pieces from the Art Bank collection. Owing to positive feedback on the quality of the display and the exhibition's strong social networking component, the Art Bank has been asked to host exhibitions on a regular basis in the Gallery.

The Governor General's Literary Awards (GGLAs) were announced on November 19th, 2014. This year's highly digital promotion of the awards focused on celebrating the best in Canadian literature and showcasing opportunities for public engagement. The campaign created significant buzz on social media, and over 200 people attended readings of the French and English language winners at the Âjagemô Exhibition Hall at the Council's offices.

Opened in the fall of 2014, the second exhibition for the Council's Âjagemô gallery space is titled *Collecting Our Thoughts*. Curated by Carol Wainio, a laureate of the Governor General's Awards in Visual and Media Arts, the selection celebrates the work of other former laureates and kicks off the celebration of 15 years of these awards in 2015. *Collecting Our Thoughts* will be on view until mid-April 2015.

The Canada Council Musical Instrument Bank is pleased to now include the 1768 Miller Januarius Gagliano violin in its permanent collection of fine stringed instruments, thanks to the generous donation of Mrs. June Miller of Toronto. The violin is characteristic of Gagliano's work and is in an excellent state of preservation and is appraised at $375,000.

Net Results

	Three months ended December 31				Nine months ended December 31			
(in thousands of dollars)	2014	2013	Increase/ (Decrease)	% change	2014	2013	Increase/ (Decrease)	% change
Revenue	7,707	3,751	3,956	105%	10,089	5,193	4,896	94%
Expenses	(13,875)	(13,512)	363	3%	(149,246)	(152,486)	(3,240)	-2%
Government funding	33,631	34,659	(1,028)	-3%	157,631	159,659	(2,028)	-1%
Net results for the period	27,463	24,898	2,565	10%	18,474	12,366	6,108	49%

Overview of the Third Quarter Net Results

The surplus for the quarter was $27.5M, an increase of $2.6M over the third quarter of the previous fiscal year. This increase is related to a higher investment income distribution for the quarter of $4.2M, which created an inflow in cash and therefore a reduction of $1.0M in the drawdown of government funding for the period compared to the same period last year.

The Council will continue to monitor its financial results with the aim of reallocating savings in program delivery and general administration to grants expenses.

IMPORTANT CHANGES

Program Activities

The Council began work on the development of a new suite of national, non-disciplinary programs in advance of a planned announcement at its Annual Public Meeting in January 2015. As part of this process, the Council will reduce its current number of granting programs from 142 to less than 10. These changes are being implemented to further support the Canadian artistic ecosystem, to be as flexible and inclusive as the diverse practices and communities it supports, and increase clarity in the desired outcomes of Council's funding in bringing great art to Canadians.

The Council has also undertaken a review of its suite of prizes to develop a framework to better understand the role of prizes in both research and the arts ecosystem. The framework includes guiding principles to help manage and further evolve Council's portfolio of prizes.

Operational Activities

As part of its business transformation, the Council continued work on the simplification of processes and performance measures. Over 50 employees from all levels of the hierarchy and across all Divisions are actively involved in a number of workgroups supporting this effort. When the business requirements for the granting program and processes are defined, the development of a new portal through which arts communities interact with the Council will move forward.

Leadership and Governance

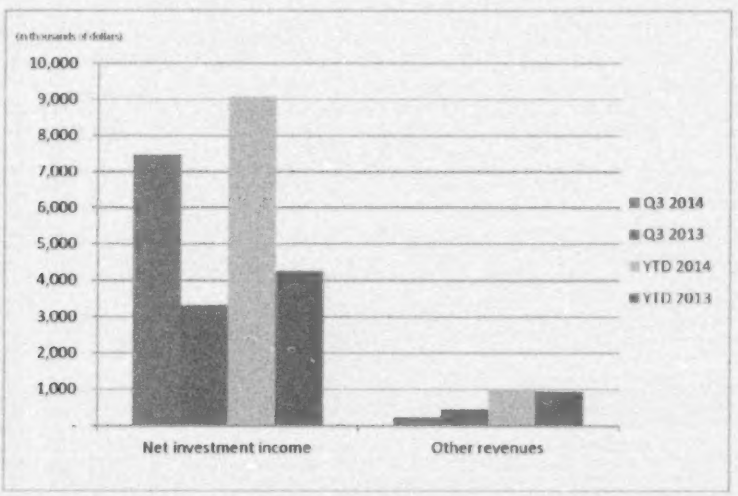
Joseph L. Rotman, Chair of the Canada Council for the Arts, passed away on January 27th, 2015 leaving a major legacy to the Council in terms of vision, governance and leadership. He was appointed Chair in 2008, with his mandate renewed for a second term in 2013. Under the Canada Council's governance policy, Vice-Chair Nathalie Bondil will assume the official duties of the position until a new Chair is appointed by the federal government. Ms. Bondil is Director and Chief Curator of the Montreal Museum of Fine Arts.

Ms. Cheryl Snarle from Winnipeg, Manitoba was appointed to the Board for a four-year term, effective October 30, 2014.

FINANCIAL RESULTS

The following section provides further details and explanations of financial results presented in the quarterly financial statements:

Revenue



Investment Income

Net investment income for the quarter is higher than last year, by $4.2M. This increase is mainly due to a higher dividend income distribution of $4.0M which was partially offset by an increase of $0.2M in investment portfolio management costs due to a movement from a passive to an active management style in the Fixed Income class and also as a direct result of the market value increase compared to last year.

Other Revenues

The decrease in other revenues for the quarter relates to the services administered by the Council such as the Canadian Public Arts Funders and the Commission Internationale de Théâtre Francophone which were recorded in the third quarter last year compared to the second quarter this year. The year-to-date figures are comparable.

Expenses

(in thousands of dollars)	Three months ended December 31			Nine months ended December 31		
	2014	2013	Increase/ (Decrease)	2014	2013	Increase/ (Decrease)
Grants	5,609	4,504	505	123,044	125,474	(2,430)
Program delivery costs	4,583	4,560	23	13,298	13,481	(183)
Net Art Bank loss	63	5	58	263	116	147
Canadian Commission for UNESCO	482	514	(32)	1,413	1,617	(204)
General administration	3,738	3,929	(191)	11,228	11,798	(570)
Total	13,875	13,512	363	149,246	152,486	(3,240)

Grant expenses for the quarter are higher compared to the same period last year due to the timing of competition deadlines and approval of results by the Board which differ from the prior year. The nine month period comparative demonstrates a closer alignment with a variance of 2%.

The decrease in both program delivery and general administration costs for the nine-month period is mostly related to savings in salaries due to a number of vacancies and also as a result of efficiencies related to the peer assessment process and the savings in rent costs.

The Council expects the annual grants expenses to be higher than the original budget of $153.6M by approximately $1.5M due to the re-allocation of savings found in program delivery and general administration.

Financial Assets

(in thousands of dollars)	December 31 2014	March 31 2014	Increase/ (Decrease)
Cash and Cash equivalents	20,497	251	20,246
Accounts receivable	5,005	4,116	889
Portfolio investments	321,946	323,081	(1,135)
Total	347,448	327,448	20,000

Cash and Cash Equivalents

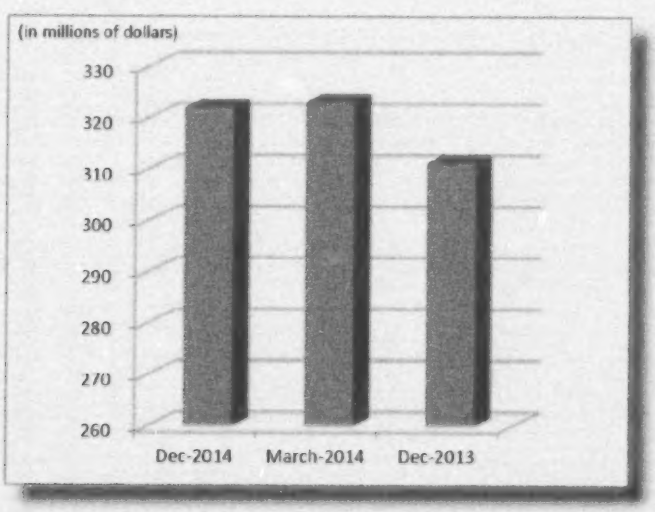
The increase of $20.2M in Cash and Cash Equivalents is aligned with the year-to-date surplus of $18.5M and is directly related to the cash provided by operating transactions in the amount of $19.3M.

Accounts Receivable

The increase of $0.9M arises primarily from recording an additional $2.1M in accrued investment income compared to the balance as of March 31, 2014. The increase was offset by the receipt of $1.1M in government funding for the 2013-14 Supplementary Estimates recorded at year-end.

Portfolio Investments

The total market value of the portfolio as at December 31, 2014 was $321.9M of which $80.0M was externally restricted. This represents a decrease of $1.1M since March 31, 2014 and an increase of $10.7M since December 31, 2013.



The total fund generated an absolute return of 1.1% for the quarter which was lower than the benchmark return by 1.7%. The main contributor to the returns for this period was the performance of the Real Estate and Fixed Income managers. During the quarter, the returns were between 0.5% and 3.5% for all asset classes except the Canadian Equity which posted a negative return of 4.2% compared to the benchmark of -1.5%.

During the last quarter, the Killam Fund reimbursed an interfund balance of $8.8M to the Council which was partially re-invested in the Endowment and Special funds portfolio. This transaction explains the reduction in fair value of the Killam Fund and the increase in fair value of the Endowment and Special funds since March 31, 2014 .

Since March 31, 2014, the total fund generated an absolute return of 4.2% which was lower than the benchmark return by 2.4%. All managers have year-to-date positive returns , except for the Canadian Equity manager (-0.7%). The main contributors for this year-to-date return are the performance of the Infrastructure managers (19.9%), Real Estate managers (7.1%) and Canadian Fixed Income manager (5.6%).

Liabilities

(in thousands of dollars)	December 31 2014	March 31 2014	Increase/ (Decrease)
Bank indebtedness	-	542	(542)
Grants payable	32,665	30,901	1,764
Accounts payable and accrued liabilities	1,673	3,544	(1,871)
Deferred revenues	7,116	7,477	(361)
Employee future benefits	2,689	2,530	159
Externally restricted contributions	39,265	37,097	2,168
Total	83,408	82,091	1,317

Grants Payable
The increase of $1.8M in comparison to the value as at March 31, 2014 arises from grants accrued which had not been paid by the end of the nine-month period.

Accounts Payable and Accrued Liabilities
The decrease of $1.9M in comparison to the value as at March 31, 2014 is mainly due to a reduction of $2.0M in commercial invoices.

Externally Restricted Contributions
The increase of $2.2M in comparison to the value as at March 31, 2014 is mainly due to a current surplus of $2.9M for the nine-month period. The majority of activities related to the externally restricted contributions will be expensed in the fourth quarter.

Non-Financial Assets

(in thousands of dollars)	December 31 2014	March 31 2014	Increase/ (Decrease)
Tangible capital assets	8,338	8,904	(566)
Art Bank assets	19,429	19,400	29
Musical instruments	1	1	-
Prepaid expenses	540	315	225
Total	28,308	28,620	(312)

Tangible Capital Assets
The reduction in tangible capital asset is mainly due to amortization.

Art Bank Assets

The Council owns approximately 17,500 works of contemporary Canadian art within its Art Bank collection. At December 31, 2014 the appraised value of the Art Bank assets was approximately $71M. The Council insures its Art Bank assets for its estimated appraised value.

Musical Instruments
The Council operates a Musical Instrument Bank and it currently owns a fine cello bow and nine prestigious musical instruments. In addition, the Council manages 12 instruments on loan. The appraised value of its musical instruments as at December 31, 2014 was $37.4M. These are included on the Statement of Financial Position at a nominal value. The Council insures the musical instruments at their appraised value.

RISK MANAGEMENT

Corporate Risk

In line with good governance practices, the Council updates and revises its Corporate Risk Profile on an ongoing basis, identifying and including any changes in the Council's risk environment. In order to address the risks within the Council's corporate risk profile that are outside the Council's appetite for risk, effective risk mitigation strategies and action plans are developed, under the oversight of assigned members of executive management, to reduce the risk exposure to an acceptable and manageable level.

The Audit and Finance Committee reviewed the Corporate Risk Profile presented by executive management at its November 2014 meeting. Executive management monitors progress of the implementation of these mitigation strategies and reports results to the Audit and Finance Committee on a regular basis.

Financial Risk

The Council is exposed to a variety of financial risks mainly through its investment portfolio. The Council's investment portfolio is primarily exposed to price risk, interest rate risk and currency risk. The Investment Committee reviews the Council's investment policy annually and recommends changes in the asset mix allocation, if necessary, to the Board. This policy sets out the long term investment objectives and guidelines under which the portfolio is to be invested.

USE OF PARLIAMENTARY APPROPRIATIONS

The following information is intended to supplement that provided elsewhere in this discussion regarding the Council's use of its Parliamentary appropriations.

The Council receives its main funding through an appropriation voted by Parliament. The Council records the Parliamentary appropriations received in the period as revenue in the Statement of Operations or as Deferred Parliamentary appropriations to the extent they relate to the months following the period end. The Council submits a monthly cash flow analysis to the Department of Canadian Heritage to justify its monthly drawdown cash requirements. The cash-flow requirements are estimated and may not exactly match the timing of expenses reported in the Statement of Operations. The monthly drawdown is invested in a short-term pooled fund managed by a professional investment manager from which the Council draws its daily cash requirements.

The Parliamentary appropriations approved and received by the Council during the nine-month period were as follows:

(in thousands of dollars)	December 31	
	2014	2013
Approved annual operating funding		
Vote 1 - Operating costs	182,093	180,261
Supplementary Estimates	127	127
Compensation adjustment	4	531
	182,224	180,919
Parliamentary appropriations for operating expenses recorded in the Statement of Operations	(157,631)	(159,659)
Balance of operating funding to be received	24,593	21,260

Canada Council for the Arts | Conseil des arts du Canada

Quarterly

Financial Statements

Unaudited

These financial statements for the quarter ended December 31, 2014 have not been audited or reviewed by our Auditor

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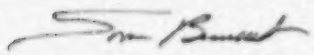
Management's Responsibility for Financial Reporting

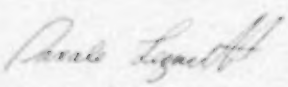
Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

February 27, 2015



Simon Brault, O.C., O.Q., FCPA, FCGA
Director and Chief Executive Officer



Pascale Legault, CPA, CA
Chief Financial Officer

Statement of Financial Position

(Unaudited) (in thousands of dollars)	December 31 2014	March 31 2014
FINANCIAL ASSETS		
Cash and cash equivalents	$ 20,497	$ 251
Accounts receivable	5,005	4,116
Portfolio investments (Note 3)	321,946	323,081
Total financial assets	347,448	327,448
LIABILITIES		
Bank indebtedness	-	542
Grants payable	32,665	30,901
Accounts payable and accrued liabilities	1,673	3,544
Deferred revenues	7,116	7,477
Employee future benefits	2,689	2,530
Deferred revenues - Externally restricted contributions (Note 5)	39,265	37,097
Total liabilities	83,408	82,091
NET FINANCIAL ASSETS	264,040	245,357
NON-FINANCIAL ASSETS		
Tangible capital assets	8,338	8,904
Art Bank assets	19,429	19,400
Musical instruments	1	1
Prepaid expenses	540	315
Total non-financial assets	28,308	28,620
ACCUMULATED SURPLUS (Note 6)	$ 292,348	$ 273,977
Accumulated surplus is comprised of:		
Accumulated surplus from operations	253,414	234,940
Accumulated remeasurement gains	38,934	39,037
ACCUMULATED SURPLUS	$ 292,348	$ 273,977

The accompanying notes and schedules are an integral part of the financial statements

Statement of Operations

(Unaudited)	Yearly Budget	Three months ended December 31		Nine months ended December 31	
(in thousands of dollars)	2015	2014	2013	2014	2013
Revenue					
Net investment income (Note 7)	$ 9,127	$ 7,475	$ 3,314	$ 9,068	$ 4,265
Other revenue	1,210	232	437	1,021	928
Total revenue	10,337	7,707	3,751	10,089	5,193
Expenses					
Programs					
Grants	153,589	5,009	4,504	123,044	125,474
Administration	14,754	3,581	3,437	10,258	10,293
Services	6,181	1,002	1,123	3,040	3,188
	174,515	9,592	9,064	136,342	138,955
Net Art Bank loss (Note 8)	259	63	5	263	116
Canadian Commission for UNESCO (Note 9)	2,323	482	514	1,413	1,617
General administration	15,270	3,738	3,929	11,228	11,798
Total expenses	192,367	13,875	13,512	149,246	152,486
Annual deficit from operations before Parliamentary appropriations	(182,030)	(6,168)	(9,761)	(139,157)	(147,293)
Parliamentary appropriations	182,083	33,631	34,659	157,631	159,659
SURPLUS FROM OPERATIONS FOR THE PERIOD	53	27,463	24,898	18,474	12,366
ACCUMULATED SURPLUS FROM OPERATIONS, BEGINNING OF PERIOD	-	225,951	225,465	234,940	237,997
ACCUMULATED SURPLUS FROM OPERATIONS, END OF PERIOD	$ 53	$ 253,414	$ 250,363	$ 253,414	$ 250,363

Statement of Remeasurement Gains and Losses

(Unaudited)	Three months ended December 31		Nine months ended December 31	
(in thousands of dollars)	2014	2013	2014	2013
ACCUMULATED REMEASUREMENT GAINS, BEGINNING OF PERIOD	$ 44,712	$ 18,249	$ 39,037	$ 8,895
Unrealized gains (losses) attributable to:				
Portfolio investments	(5,801)	9,241	180	18,667
Amounts reclassified to the Statement of Operations:				
Derivatives	-	-	-	40
Portfolio investments	23	1,024	(283)	912
NET MEASUREMENT GAINS (LOSSES) FOR THE PERIOD	(5,778)	10,265	(103)	19,619
ACCUMULATED REMEASUREMENT GAINS, END OF PERIOD	$ 38,934	$ 28,514	$ 38,934	$ 28,514

The accompanying notes and schedules form an integral part of the financial statements.

Statement of Change in Net Financial Assets

(Unaudited)	Three months ended December 31		Nine months ended December 31	
(in thousands of dollars)	2014	2013	2014	2013
SURPLUS FROM OPERATIONS FOR THE PERIOD	$ 27,463	$ 24,898	$ 18,474	$ 12,366
(Acquisition)/Disposition of tangible capital assets	196	(392)	(222)	(846)
Amortization of tangible capital assets	263	228	788	686
Acquisition of Art Bank inventory	(29)	(64)	(29)	(64)
	430	(228)	537	(224)
Acquisition of prepaid expenses	(540)	(440)	(1,613)	(1,490)
Use of prepaid expenses	558	759	1,388	1,356
	18	319	(225)	(134)
Net remeasurement gains (losses)	(5,778)	10,265	(103)	19,619
INCREASE IN NET FINANCIAL ASSETS	22,133	35,254	18,683	31,627
NET FINANCIAL ASSETS, BEGINNING OF PERIOD	241,907	221,263	245,357	224,890
NET FINANCIAL ASSETS, END OF PERIOD	$ 264,040	$ 256,517	$ 264,040	$ 256,517

Statement of Cash Flow

(Unaudited)	Three months ended December 31		Nine months ended December 31	
(in thousands of dollars)	2014	2013	2014	2013
Operating Transactions				
Surplus from operations for the period	$ 27,463	$ 24,898	$ 18,474	$ 12,366
Gains (Losses) from disposal of portfolio investments (Note 7)	(1,035)	1,349	(1,443)	1,200
Decrease in net derivatives liability less realized gain transferred from remeasurement gains and deferred revenues - externally restricted contributions	-	-	-	(37)
Amortization of tangible capital assets	263	228	788	686
Donation to the Art Bank inventory	-	(64)	-	(64)
(Increase) Decrease in prepaid expenses	18	319	(225)	(134)
Increase (Decrease) in employee future benefits	96	(76)	159	(19)
Income transferred from Deferred revenues - Externally restricted contributions to investment income (Note 5)	3,371	1,065	2,925	273
Net change in other non-cash items (Note 10)	(41,298)	(33,405)	(1,357)	10,876
Cash provided (used) by operating activities	(11,122)	(5,686)	19,321	25,147
Capital Transactions				
Cash provided by disposal (used to acquire) tangible capital and Art Bank assets	167	(392)	(251)	(846)
Investing Transactions				
Acquisition of portfolio investments	(18,725)	(82,050)	(24,385)	(109,726)
Disposal of portfolio investments	18,135	81,285	26,103	109,172
Cash provided (used) by investing activities	(590)	(765)	1,718	(554)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,545)	(6,843)	20,788	23,747
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	32,042	29,440	(291)	(1,150)
CASH AND CASH EQUIVALENTS, END OF PERIOD	20,497	22,597	20,497	22,597

The accompanying notes and schedules form an integral part of the financial statements.

Notes to the Financial Statements
For the period ended December 31, 2014

(Unaudited)

1. AUTHORITY AND ACTIVITIES

The Canada Council for the Arts (the "Council"), established by the Canada Council Act in 1957 and subsequently amended in 2001 by Bill C-40 to the Canada Council for the Arts Act, is not an agent of Her Majesty and is deemed to be a registered charity for the purposes of the Income Tax Act. In accordance with section 85(1.1) of the Financial Administration Act, the Council is exempt from Divisions I to IV of Part X of this Act, except for subsection 105(2) and sections 113.1 and 119 of Division II, sections 131 to 148 of Division III and section 154.01 of Division IV. The Council is a Crown corporation whose objectives are to foster and promote the study and enjoyment of and the production of works in the arts.

The Council achieves its objectives primarily through grant programs to professional Canadian artists and arts organizations. The Council incurs administration and services expenses in the delivery of programs. Program administration expenses represent the direct costs of program delivery. Program services expenses represent costs incurred for non-grant activities in fulfillment of the Council's mandate and costs associated with the adjudication of grants. General administration costs represent the costs related to corporate management, communications, human resources, information management, finance, accommodation and amortization.

The Canadian Commission for UNESCO (CCU) was established by the Canada Council pursuant to a 1957 Order in Council. The CCU acts as a forum for governments and civil society to mobilize the participation of Canadians in UNESCO's mandated areas of education, natural and social sciences, and culture, communication and information. The Secretariat for the CCU is provided by the Canada Council and led by a Secretary General who is part of the Council's Executive Management team.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting
These unaudited interim financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAS) as promulgated by the Chartered Professional Accountants (CPA) of Canada.

Basis of preparation
These interim financial statements are intended to provide an update on the latest complete set of audited annual financial statements for the year ended March 31, 2014. Accordingly, they should be read in conjunction with the audited annual financial statements. The interim financial statements are unaudited for all periods presented. The accounting policies used in the preparation of these interim condensed financial statements are consistent with those disclosed in the Council's last audited annual financial statements.

Measurement uncertainty
The preparation of financial statements in accordance with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Employee-related liabilities, the estimated useful lives of tangible capital assets, the residual and appraised value of the Art Bank assets, and the fair value of financial instruments are the most significant items where estimates are used. Actual results could differ from those estimated.

Budgeted figures
Budgeted figures have been provided for comparison purposes and have been approved by the Board.

3. PORTFOLIO INVESTMENTS

	Year-to-date December 31, 2014					Year-end March 31, 2014		
(in thousands of dollars)	Cost	Unrealized losses	Unrealized gains	Fair value		Cost	Fair value	
	$	$	$	$	%	$	$	%
Canada Council Endowment and Special Funds								
Pooled funds								
Equity	112,970	-	30,459	143,429	54	104,678	139,301	54
Fixed income	70,750	-	2,272	73,022	28	61,750	62,116	24
Alternatives	20,630	-	5,857	26,487	10	20,630	25,307	10
Money market	3,438	-	-	3,438	1	14,944	15,030	6
Real estate	8,183	(137)	1,890	9,916	4	7,977	9,452	4
Infrastructure	4,755	(16)	2,330	7,069	3	4,454	5,994	2
	220,706	(153)	42,808	263,361	100	214,433	257,200	100
Killam Fund								
Pooled funds								
Equity	24,906	-	6,970	31,876	54	26,604	35,368	54
Fixed income	14,745	-	467	15,212	26	15,910	15,940	24
Alternatives	5,298	-	1,498	6,796	12	5,298	6,493	10
Money market	-	-	-	-	-	3,713	3,735	6
Real estate	2,176	(35)	522	2,663	5	2,141	2,555	4
Infrastructure	1,328	(4)	714	2,038	3	1,435	1,790	2
	48,453	(39)	10,171	58,585	100	55,001	65,881	100
Total investments	269,159	(192)	52,979	321,946		269,434	323,081	

Unrealized gains/losses on investments are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle for some investments. Annually, the Council assesses each of its investment instruments against specific criteria to determine whether there is objective evidence that the adjusted cost may not be recovered and is therefore impaired. The Council does not consider these investments to be other-than-temporarily impaired.

The Council manages two separate portfolios, the Canada Council Endowment and Special Funds and the Killam Fund. The Killam will requested that their donation be invested separately. Apart from the Killam Fund, all other externally restricted contributions are consolidated into the Canada Council Endowment and Special Funds and represent 8% (March 31, 2014 - 8%) of that Fund with a total fair value of $21,411,000 (March 31, 2014 - $20,910,000). The total fair value of the externally restricted investment including the Killam Fund is $79,996,000 (March 31, 2014 - $86,791,000).

The long-term objectives of the Canada Council Endowment and Special Funds and the Killam Fund are to generate long-term real returns to supplement the costs of administering the various programs, while maintaining the purchasing power of the endowed capital.

The Council invests in units of equity, fixed income and alternative pooled funds and in limited partnership units of five real estate funds and four infrastructure funds. The permitted and prohibited investments, the asset mix as well as some maximum holding quantity restrictions are governed by a Board approved investment policy to mitigate risk. All of the investments are managed by professional investment managers.

The Council manages its portfolio to the following benchmarks as per the Statement of Investment Policies and Goals approved by the Board. The benchmarks allow asset class allocations to vary between a minimum and a maximum.

Asset Classes	Market Value	Minimum	Benchmark	Maximum
Canadian equities	11%	5%	10%	15%
Global equities	44%	35%	40%	45%
Fixed income	27%	15%	25%	35%
Alternatives	10%	5%	10%	15%
Real estate	4%	0%	7.5%	10%
Infrastructure	3%	0%	7.5%	10%
Money market	1%	0%	0%	10%

The money market asset class includes short-term pooled funds used for future investments in alternatives and capital commitments in limited partnership units of real estate and infrastructure funds. These funds had a balance of $3,438,000 (March 31, 2014 - $18,765,000).

Investments in the equity pooled funds are comprised of units of three pooled funds, one Canadian fund and two funds that are invested in the global equity markets. The Canadian equities are measured against the returns of the Standard and Poor's Toronto Stock exchange Index. The global equities are measured against the returns of the Morgan Stanley Capital International (MSCI) All Country World Index. Investments in the fixed income pooled fund are comprised of a mix of bonds, mortgages, emerging debt and other fixed income instruments. The fixed income fund is measured against the returns of the FTSE TMX Universe Bond Index. Investments in the alternative pooled funds are comprised of units of one hedge fund with diversified positions across global asset classes. This investment is measured against the returns of the 91-day Canadian T-bill plus 4%. The assets included in the real estate funds are commercial real estate properties in Canada, the United States and globally. These investments are measured against the returns of the Investment Property Databank for the Canadian managers and the National Council of Real Estate Investment Fiduciaries (NCREIF) for the US manager. The infrastructure funds include four portfolios of diversified infrastructure investments. These investments are measured against the Consumer Price Index plus 4.5%.

4. FINANCIAL RISKS AND FAIR VALUE

The measurement categories of the Council's financial instruments, as well as their carrying amounts and fair values are as follows:

(in thousands of dollars)		Year-to-date December 31, 2014	Year-end March 31, 2014
Financial assets and liabilities and classifications	Measurement categories	Carrying amount and fair value ($)	Carrying amount and fair value ($)
Cash and cash equivalents	Fair value	20,497	251
Accounts receivable	Amortized cost	5,005	4,116
Portfolio investments	Fair value	321,946	323,081
Bank indebtedness	Fair value	-	542
Grants payable	Amortized cost	32,665	30,901
Accounts payable and accrued liabilities	Amortized cost	1,673	3,544

1. The detailed fair value for the investments is listed in Note 3.

a) Establishing fair value

The carrying value of accounts receivable, grants payable and accounts payable and accrued liabilities approximates their fair values due to their short-term maturity.

The fair values of the investments are determined as follows:

- Pooled fund investments are valued at the unit values supplied by the pooled fund managers, which represent the Council's proportionate share of the underlying net assets at fair values, determined using closing market prices.
- The Alternatives is a pooled fund investment which is valued at the unit values supplied by the pooled fund manager. The fund manager manages multiple funds strategies within the fund and determines the unit's fair value using the closing market prices for some strategies when available or using valuation model with non-observable data for other strategies.
- Real estate investment values are supplied by the fund managers using independently audited appraisals which are based on a valuation model with non-observable data. The independently audited appraisals are obtained annually.
- Infrastructure investment values are supplied by the fund managers using internally determined appraisals. The appraisals are based on a valuation model with non-observable data and are audited annually.

b) Fair value hierarchy

The financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above:

Financial assets at fair value

	Year-to-date December 31, 2014				Year-end March 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	$	$	$	$	$	$	$	$
Cash and cash equivalents	3,847	16,650	-	20,497	-	251	-	251
Portfolio Investments								
Canada Council Endowment and Special Funds								
Pooled Funds								
Equity	-	143,429	-	143,429	-	139,301	-	139,301
Fixed Income	-	73,022	-	73,022	-	62,116	-	62,116
Alternatives	-	-	26,487	26,487	-	-	25,307	25,307
Money Market	-	3,438	-	3,438	-	15,030	-	15,030
Real Estate	-	-	9,916	9,916	-	-	9,452	9,452
Infrastructure	-	-	7,069	7,069	-	-	5,994	5,994
Killam Fund								
Pooled Funds								
Equity	-	31,876	-	31,876	-	35,368	-	35,368
Fixed Income	-	15,212	-	15,212	-	15,940	-	15,940
Alternatives	-	-	6,796	6,796	-	-	6,493	6,493
Money Market	-	-	-	-	-	3,735	-	3,735
Real Estate	-	-	2,663	2,663	-	-	2,555	2,555
Infrastructure	-	-	2,038	2,038	-	-	1,790	1,790
	-	266,977	54,969	321,946	-	271,490	51,591	323,081
Total	3,847	283,627	54,969	342,443	-	271,741	51,591	323,332

Financial liabilities at fair value

	Year-to-date December 31, 2014				Year-end March 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(in thousands of dollars)	$	$	$	$	$	$	$	$
Bank indebtedness	-	-	-	-	542	-	-	542
Total	-	-	-	-	542	-	-	542

5. DEFERRED REVENUES - EXTERNALLY RESTRICTED CONTRIBUTIONS

The deferred revenues from externally restricted contributions consist of accumulated income received which has been deferred until the resources have been used for the purpose or purposes specified by the endowment. The restricted endowment principal of $37,569,000 is required to be maintained intact and is reported under accumulated surplus from operations (see Note 6).

(in thousands of dollars)	Year-to-date December 31, 2014	Year-end March 31, 2014
Balance, beginning of period	$ 37,097	$ 27,721
Transferred from (to) investment income (Note 7)		
Net investment income	3,766	1,959
Use of funds	(841)	(2,379)
	2,925	(420)
Unrealized gains on portfolio investment	403	10,131
Reclassified to statement of operations - portfolio	(1,160)	(350)
Reclassified to statement of operations - derivatives	-	15
Balance at end of period	$ 39,265	$ 37,097

The unrealized gains on portfolio investment are related to the change in fair value of those assets from the previous period.

6. ACCUMULATED SURPLUS

(in thousands of dollars)	Year-to-date December 31, 2014		Year-end March 31, 2014	
Accumulated surplus from operations				
Endowment - Original contribution		$ 50,000		$ 50,000
Endowment principal – Externally restricted contributions		37,569		37,569
Reserve for excess investment income				
Balance at beginning of the period	122,445		123,445	
Appropriated to the accumulated surplus during the period	-		(1,000)	
Balance at end of the period		122,445		122,445
Surplus				
Balance at beginning of the period	24,926		23,953	
Appropriated from the reserve for excess investment income during the period	-		1,000	
Surplus (Deficit) for the period	18,474		(27)	
Balance at end of the period		43,400		24,926
Total accumulated surplus from operations		253,414		234,940
Accumulated remeasurement gains				
Balance at beginning of the period	39,037		11,925	
Change in fair value	(103)		27,112	
Balance at end of the period		38,934		39,037
Balance of accumulated surplus at end of period		$ 292,348		$ 273,977

7. NET INVESTMENT INCOME

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2014	2013	2014	2013
Gains (losses) from disposal of portfolio investments	$ 1,035	$ (1,349)	$ 1,443	$ (1,200)
Income transferred to deferred revenues -				
Externally restricted contributions (Note 5)	(3,369)	(1,065)	(2,925)	(273)
Net losses on foreign currencies	286	-	276	(300)
Interest, dividend and other distributed income	10,062	6,082	11,978	7,094
Investment portfolio management costs	(539)	(354)	(1,704)	(1,056)
	$ 7,475	$ 3,314	$ 9,068	$ 4,265

8. NET ART BANK LOSS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2014	2013	2014	2013
Rental revenue	$ 303	$ 365	$ 928	$ 1,141
Other income	47	49	119	21
Administration expense	(408)	(415)	(1,297)	(1,264)
Amortization of other capital assets	(5)	(4)	(13)	(14)
	$ (63)	$ (5)	$ (263)	$ (116)

9. CANADIAN COMMISSION FOR UNESCO

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2014	2013	2014	2013
Program expenses	$ 150	$ 173	$ 504	$ 518
Program - contributions received	(1)	(1)	(5)	(1)
Administration expense	333	342	914	1,100
	$ 482	$ 514	$ 1,413	$ 1,617

10. NET CHANGE IN OTHER NON CASH ITEMS

(in thousands of dollars)	Three months ended December 31		Nine months ended December 31	
	2014	2013	2014	2013
(Increase) Decrease in accounts receivable	$ (2,870)	$ (454)	$ (889)	$ 1,459
Increase (Decrease) in grants payable	(22,421)	(25,651)	1,764	4,869
Increase (Decrease) in accounts payable and accrued liabilities	32	539	(1,871)	(1,379)
Increase (Decrease) in deferred revenues	(39)	161	(361)	(73)
Increase (Decrease) in deferred Parliamentary appropriations	(16,000)	(8,000)	-	6,000
Net change	$ (41,298)	$ (33,405)	$ (1,357)	$ 10,876

11. RELATED PARTY TRANSACTIONS

The Council is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Council enters into transactions with related parties in the normal course of business on normal trade terms applicable to all individuals and enterprises, and these transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.